



220 South King St

Suite 1730

Honolulu, HI 96813

Telephone:

(808) 524-7771

Friends for

Menor

Candidate Committee

April 3, 2009

Wanda J. Thomas
Acting Assistant Staff Director
Audit Division
Federal Election Commission
Washington, DC 20463

Re: Friends for Menor

Dear Ms. Thomas:

This is in response to the Interim Report of the Audit Division on Friends for Menor which we received on Friday, March 13, 2009. We are glad that your office is finally moving forward to bring this matter to a close after more than two years since we were first notified by the Federal Election Commission ("FEC") that an audit was being initiated.

After carefully reviewing the report, we respectfully disagree with the findings and recommendations contained in the interim report. Based on ample documentation that we are submitting with this letter, the report's findings are basically and inaccurate and need to be corrected before a final report is issued. In support of our position, we offer the following comments:

I. THE LOANS FROM THE CANDIDATE TO FRIENDS FOR MENOR WERE IN SUBSTANTIAL COMPLIANCE WITH FEDERAL LAW.

The interim report has called into question the permissibility of certain loans made by the Candidate to his congressional campaign whose source of funds were from his business law account. A significant portion of the funds deposited into said account were derived from several sources including legal fees earned from the Candidate's law practice, and the monthly salary checks that he received as a former State Senator.¹

It was proper for the Candidate to tap into these funds to assist in the financing of the campaign because under the Federal Election Campaign Act and applicable regulations, they constituted "personal funds" from which a candidate for Federal office can make unlimited expenditures.

In the interim report, the Audit staff raised concerns about payments made to the Candidate by a mortgage lending company

¹ The Candidate conducts his law practice as a sole practitioner.

Letter to FEC

Page Two

and housing construction company. These concerns are unfounded. These payments were in fact legal fees paid to the Candidate to compensate him for the various legal services that he had agreed to perform on behalf of these companies on a long-term basis.

Enclosed for your review are the following documents pertaining to the Candidate's legal representation of the aforementioned clients:

1. Legal Services Agreement entered into by and between the mortgage lending company and the Law Offices of Ron Menor dated August 8, 2006. The total agreed upon lump sum compensation was \$24,500.00.
2. Letter dated December 26, 2007 signed by the aforementioned parties extending their Legal Services Agreement through December 31, 2008.
3. Counsel Retention Agreement entered into by and between the housing construction company and the Law Offices of Ron Menor dated July 21, 2006. The total agreed upon lump sum compensation was \$36,000.00.
4. Letter dated April 14, 2008 signed by the aforementioned parties extending their Counsel Retention Agreement to January 31, 2009.

Please note that all of the above parties are in the process of executing documents to extend their legal representation agreements beyond the stated expiration dates. We would also like to point out that as part of their discussions regarding the provision of legal services, the mortgage lending company extended to Candidate a loan in the amount of \$5,500.00. We have enclosed for your review a copy of the Promissory Note dated August 31, 2006 pertaining to this loan.

This loan should not be characterized as a contribution to the campaign. The Promissory Note specifies that "[r]emayment of this loan is to be secured by accounts receivable of the Law Offices of Ron Menor" and, therefore, was not an outstanding debt owed by the campaign. Moreover, the parties negotiated the terms of the loan as part of discussions for the provision of legal services by the Candidate to the company. Furthermore, apart from this loan, there were sufficient funds in the Candidate's business account to cover the loans that he made to his campaign. For your information, the total principal and interest owed under the above-referenced Promissory Note were paid in full by the due date specified in the Note which was August 31, 2007. Including the loan provided to the Candidate, he received a total of \$30,000 from the mortgage lending company.

We are also furnishing to your office additional documentation which provide examples of the kind of work that the Candidate has been performing on behalf of his clients. These include: an Application for a Lien filed on behalf of the housing construction company; and an Application for Certificate of Authority for Foreign Corporation designating the Candidate as a registered agent on behalf of the mortgage lending company in Hawaii.

Letter to FEC
Page Three

In addition to the concerns raised about the companies' payments to the Candidate, the interim report questions the source of funds deposited into the Candidate's business account in the amount of \$21,000 which the Audit staff was unable to attribute to any particular source. The sources of these funds may have originated from the following:

1. The report on page 6 refers to a \$6,000 cash deposit made into the Candidate's business account on August 25, 2006. This deposit was actually a deposit of funds from the bank account of the President of the housing construction company in Kahului, Maui into the Candidate's account. This funds transfer represented partial payment of the legal fees that were owed to the Candidate by the company pursuant to their Counsel Retention Agreement as discussed above.

2. The Candidate also received a personal loan in the amount of \$10,000 from my wife Nancy Manuel and myself jointly. (See enclosed copy of check.) I partially waived repayment of this loan in the amount of \$8,000 on or around December, 2006 in lieu of paying the Candidate legal fees for legal documents that he had prepared at my request. (See enclosed copy of invoice.) The Candidate reported this amount as income on his 2006 tax return. (See also Itemization of Legal Fees.)

3. The Candidate also received a loan in the amount of \$5,000 from Matthew Leong. The Candidate has since repaid \$3,900 of that amount to Mr. Leong. (See enclosed copy of Promissory Note dated July 30, 2006 signed by the Candidate and Matthew Leong together with a Receipt for payment.) Please note that the Candidate did not repay this amount in one lump sum but rather made several payments over a period of time starting in January of last year.

Finally, we would like to emphasize that the Candidate reported and paid taxes on all the legal fees that he earned from the above clients on his income tax and/or his business excise tax returns for 2006. We have enclosed copies of these 2006 tax returns for your review.² We have also enclosed an Itemization of Legal Fees Earned by Candidate in 2006.

II. LOAN FROM CANDIDATE'S SPOUSE

The interim report also raises questions about a \$9,000 loan check which the Candidate's spouse signed and deposited into the campaign account. This loan was entirely proper to the extent that the Candidate's spouse utilized her own personal funds in making this loan to the campaign.

² After going over his 2006 tax records in response to the interim audit report, the Candidate discovered a slight discrepancy between the income reported on his joint federal and state tax returns and the amount shown on his excise tax return. One reason for this is that his accountant was not given a copy of his excise tax return prior to the completion of the income tax returns because the Candidate did not pay his 2006 excise taxes until after that calendar year which that meant he could not claim payment of those taxes as a deduction on his 2006 tax returns. The joint returns are in the process of being amended to correct this discrepancy.

Letter to FEC
Page Four

The source of these funds was a check dated July 30, 2006 in the amount of \$10,000 that was drawn on a revocable trust bank account. This payment was made to the Candidate's spouse in order to buy out her interest in stock earnings in an entity called Market City.

It was not improper for the purchasers of her interest to utilize funds from their revocable trust bank account to consummate the buyout. Moreover, based on the foregoing, it is clear that the amounts that were paid to the Candidate's spouse represented personal income to her. It is our understanding that under Federal law, a Candidate's wife can contribute or lend an unlimited amount of her own personal funds to her spouse's campaign. Therefore, the \$9,000 loan from the Candidate's spouse to Friends For Menor did not exceed allowable limits and was a proper use of her own personal funds to support the candidacy of her husband. We would also like to emphasize that the Candidate's spouse reported and paid taxes on the compensation she received for the purchase of her interest in the Market City stock. (See enclosed copies of joint income tax returns, Capital Gains Section.)

In addition to the above, there are other points raised in the interim report that need to be clarified. On page 6, the interim report states that the income on the spreadsheet that was previously furnished by the Candidate "is significantly less than total receipts according to bank statements of the business for the same period." As we indicated in our previous letter to Christina Rosalinda Crussiah dated June 26, 2007, the spreadsheet only includes the legal fees which the Candidate received from his law practice. It does not include the monthly salary that he earned as a Hawaii State Senator and the repayments that he received for the loans that he had made to the campaign which were also deposited into the business account, as well as the interest earned on the account.

Moreover, the interim report states on page 6 that the "Candidate's gross income from legal services for the third quarter (July through September) and prior to the September, 2006 primary election to be approximately four times the income for either the second or fourth quarters of 2006." This statement is not only irrelevant, but it also fails to take into consideration the nature of the Candidate's law practice. The Candidate does not receive a regular monthly salary as a partner or associate of a law firm. He is a sole practitioner whose income fluctuates throughout the year depending on the cases that he is able to generate and/or finalize in any given period. For example, the Candidate's gross income from his law practice in 2007 was approximately \$262,000.00. Of that amount, he received approximately \$144,000 from one case that was settled on or around July, 2007. If a spreadsheet of the Candidate's business income were prepared for 2007, it would show a significant skewing of the income that he received in the third quarter just as had occurred in 2006. The fact is that sole practitioners will have good months and bad months when it comes to generating income and the Candidate's law practice is no different.

Letter to FEC
Page Five

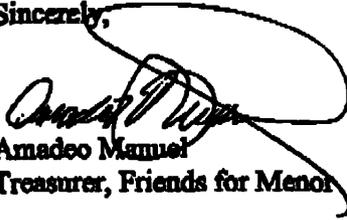
III. CONCLUSION

Based on the foregoing, we would respectfully ask that the Audit Division amend its findings and recommendations to accurately reflect the documentation and information that we have submitted with this letter. There is no question that the loans to Friends For Menor that were analyzed in the interim report were in substantial compliance with the Federal Elections Campaign Act.

Finally, before issuing your final report, we would appreciate being contacted if you feel there are additional issues that remain unresolved. We are confident that the campaign committee can address any concern that you may have, provided that we are given adequate opportunity to respond and to work collaboratively with your office. In this regard, we would like you to know that prior to the issuance of the interim report, our campaign committee would have been able to provide you with the documentation that we are now submitting with this letter had the Audit staff been more specific in terms of the kind of information that you wanted us to furnish.

Thank you for your attention to the above matters. As always, please feel free to contact us should have any questions.

Sincerely,



Amadeo Manuel
Treasurer, Friends for Menor

Enclosures